

**DIXIE BRANDS INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL  
STATEMENTS FOR THE THREE MONTHS ENDED  
MARCH 31, 2019 AND 2018  
(UNAUDITED)**

(Expressed in United States Dollars)

**NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by the auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

## DIXIE BRANDS, INC. AND SUBSIDIARIES

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# DIXIE BRANDS, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Financial Position

As at March 31, 2019 and December 31, 2018 (unaudited)

		<u>March 31, 2019</u>	<u>December 31, 2018 (audited)</u>
<b>ASSETS</b>			
Cash		\$ 5,635,261	\$ 18,361,113
Accounts Receivable, net		2,126,468	2,266,733
Deferred Contract Costs		536,878	-
Inventories	<i>Note 4</i>	1,398,533	950,938
Prepaid Expenses		998,933	411,295
<b>Total Current Assets</b>		<b>10,696,073</b>	<b>21,990,079</b>
Related Party Advances and Notes Receivable	<i>Note 10</i>	1,479,788	1,274,444
Property and Equipment, net	<i>Note 5</i>	992,567	959,374
Intangible Assets, net	<i>Note 6</i>	611,319	675,275
<b>TOTAL ASSETS</b>		<b>\$ 13,779,747</b>	<b>\$ 24,899,172</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>			
<b>LIABILITIES</b>			
Accounts Payable		\$ 1,631,960	\$ 1,099,298
Accrued Payroll		406,917	276,426
Other Accrued Liabilities		6,657,989	2,574,699
Prepaid License Fees	<i>Note 3</i>	-	4,000,000
Notes Payable, Current Portion	<i>Note 7</i>	-	775,000
<b>Total Current Liabilities</b>		<b>8,696,866</b>	<b>8,725,423</b>
Derivative Liabilities		302,600	238,100
<b>Total Liabilities</b>		<b>8,999,466</b>	<b>8,963,523</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>			
Share Capital		40,820,888	40,226,961
Contributed Surplus		2,950,963	8,506,705
Common Shares to be issued		250,000	250,000
Accumulated deficit		(37,905,246)	(31,310,910)
Non-Controlling Interest	<i>Note 11</i>	(1,336,324)	(1,737,107)
<b>Total Stockholders' Equity (Deficit)</b>		<b>4,780,281</b>	<b>15,935,649</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		<b>\$ 13,779,747</b>	<b>\$ 24,899,172</b>

Nature of Operations (Note 1)

Commitments and Contingencies (Note 15)

Subsequent Events (Note 17)

Approved on behalf of the Board on May 30, 2019

“Charles Smith” (Signed)  
Director

“Vincent ‘Tripp’ Keber, III” (signed)  
Director

**DIXIE BRANDS, INC. AND SUBSIDIARIES**

Condensed Consolidated Interim Statements of Operations

For the Three Months Ended March 31, 2019 and 2018 (unaudited)

		<b>Three months ended March 31,</b>	
		<b>2019</b>	<b>2018</b>
<b>Revenues</b>		\$ 2,218,175	\$ 937,572
<b>Cost of Goods Sold</b>		<u>1,157,808</u>	<u>461,144</u>
<b>Gross Profit</b>		<u>1,060,367</u>	<u>476,428</u>
<b>Expenses:</b>			
General and Administrative	<i>Note 13</i>	6,469,439	902,217
Sales and Marketing		1,213,359	66,919
Depreciation and Amortization		<u>59,729</u>	<u>21,511</u>
<b>Total Expenses</b>		<u>7,742,527</u>	<u>990,647</u>
<b>Loss From Operations</b>		<u>(6,682,160)</u>	<u>(514,219)</u>
<b>Other (Income) Expense:</b>			
Interest Expense		-	286,665
Change in Fair Value of Derivative Liabilities	<i>Note 8</i>	64,500	1,768
Other		<u>(72,968)</u>	<u>15,302</u>
<b>Total Other (Income) Expense</b>		<u>(8,468)</u>	<u>303,735</u>
<b>Net Loss Before Non-Controlling Interest</b>		<b>(6,673,692)</b>	<b>(817,954)</b>
<b>Non Controlling Interest</b>		<u>(79,356)</u>	<u>(10,234)</u>
<b>Net Loss Attributable to the Company</b>		<u><b>\$ (6,594,336)</b></u>	<u><b>\$ (807,720)</b></u>
<b>Earnings (Loss) Per Share - Basic and Diluted</b>	<i>Note 12</i>	<u><b>\$ (0.05)</b></u>	
Attributable to Dixie Brands Inc		\$ (0.05)	
Attributable to Non-Controlling Interest		\$ (0.00)	
<b>Weighted-Average Shares Outstanding - Basic and Diluted</b>	<i>Note 12</i>	<u><b>125,036,538</b></u>	

# DIXIE BRANDS, INC. AND SUBSIDIARIES

## Condensed Consolidated Interim Statements of Changes in Shareholders' Equity For the Three Months Ended March 31, 2019 and 2018 (unaudited)

	Atributable to the shareholders of the Company								Non-	TOTAL		
	Share Capital						Contributed Surplus	Accumulated Deficit			Controlling Interest	SHAREHOLDERS' EQUITY
	Common Shares #	Common Shares \$	Shares to be issued #	Shares to be issued \$	Preferred Shares #	Preferred Shares \$						
BALANCE AS OF DECEMBER 31, 2017	43,685,463	\$ 8,959,408.00					\$ 34,280	\$ (10,727,852)	\$ (478,369)	\$ (2,212,533)		
Adjustments Related to the Adoption of IFRS 9								\$ (290,000)		\$ (290,000)		
Net Loss								\$ (807,720)	\$ (10,234)	\$ (817,954)		
Issuance of Warrants Related to Debt										\$ -		
Series B Issuance					545,124	\$ 2,000,000.00				\$ 2,000,000		
Stock Option							\$ 24,358			\$ 24,358		
BALANCE AS OF MARCH 31, 2018	43,685,463	8,959,408	-	-	545,124	2,000,000	\$ 58,638	\$ (11,825,572)	\$ (488,603)	\$ (1,296,129)		
Net Loss								\$ (19,485,338)	\$ (935,059)	\$ (20,420,397)		
Series B Issuance					545,124	\$ 2,000,000.00				\$ 2,000,000		
Series B Conversion	33,986,740	\$ 4,000,000			-	1,090,247	\$ (4,000,000.00)			\$ -		
Series C Issuance	25,905,175	\$ 14,378,457					\$ 5,255,031			\$ 19,633,487		
Academy Common Shares on Reverse Take-Over	6,640,300	\$ 6,640,301					\$ 94,456			\$ 6,734,757		
Exercise of ACA Stock Options	75,000	\$ 70,842					\$ (70,842)			\$ -		
Cancellation of Common Shares	-	\$ (550,000)					\$ -			\$ (550,000)		
Insuance to Shareholders of Academy - Common	339,838	\$ 300,000	283,202	\$ 250,000			\$ -			\$ 550,000		
DBFN Convertible Debt	3,085,870	\$ 2,059,199					\$ 850,945		\$ (313,445)	\$ 2,596,699		
Convertible Debt - Debt Discount	1,613,130	\$ 1,424,025					\$ (14,319)			\$ 1,409,706		
Issuance of Warrants							\$ 393,952			\$ 393,952		
Exercise of Warrants	6,205,505	\$ 1,232,638					\$ (406,194)			\$ 826,444		
Incentive Share Compensation	2,673,615	\$ 1,574,291					\$ -			\$ 1,574,291		
Stock Award	1,116,710	\$ 137,800								\$ 137,800		
Stock Option							\$ 2,345,038			\$ 2,345,038		
BALANCE AS OF DECEMBER 31, 2108	124,853,271	40,226,961	283,202	\$ 250,000	-	\$ -	\$ 8,506,705	\$ (31,310,910)	\$ (1,737,107)	\$ 15,935,649		
Net Loss								\$ (6,594,336)	\$ (79,356)	\$ (6,673,692)		
Exercise of ACA Stock Options	25,000	\$ 23,614					\$ (23,614)			\$ -		
Stock Award	781,250	\$ 570,313					\$ -			\$ 570,313		
Stock Option							\$ 2,434,613			\$ 2,434,613		
Therabis change in NCI							\$ (480,139)		\$ 480,139.00	\$ -		
Purchase of Therabis							\$ (7,486,602)			\$ (7,486,602)		
BALANCE AS OF MARCH 31, 2019	125,659,521	40,820,888	283,202	\$ 250,000	-	\$ -	\$ 2,950,963	\$ (37,905,246)	\$ (1,336,324)	\$ 4,780,281		

**DIXIE BRANDS, INC. AND SUBSIDIARIES**  
Condensed Consolidated Interim Statements of Cash Flows  
For the Three Months Ended March 31, 2019 and 2018 (unaudited)

	<b>Three months ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>OPERATING ACTIVITIES</b>		
Net Loss	\$ (6,673,692)	\$ (817,954)
Adjustments to Reconcile Net Loss to		
Net Cash Used in Operating Activities:		
Depreciation and Amortization	123,683	69,530
Amortization of Debt Discount	-	59,845
Change in Fair Value of Derivative Liabilities	64,500	(498,232)
Incentive Share-Based Payment	570,312	-
Stock Incentive Expense	2,434,613	17,741
Changes in:		
Accounts Receivable	140,265	(791,977)
Deferred Contract Costs	(536,878)	-
Inventories	(447,595)	210,347
Lease Receivable	-	5,748
Prepaid Expenses	(587,638)	30,599
Accounts Payable	532,662	213,653
Accrued Payroll	130,491	89,048
Other Accrued Liabilities	(2,603,310)	884,389
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(6,852,587)</b>	<b>(527,263)</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(92,921)	33,669
Loss on Disposal of Property and Equipment	-	(14,513)
Additions to Related Party Advances and Notes Receivable	109,720	(54,662)
Payments Received on Notes Receivable	(315,064)	362,000
Change in Credit Loss Reserve	-	50,000
Investments in Affiliate	(4,800,000)	-
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(5,098,265)</b>	<b>376,494</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from Issuance of Preferred Stock	-	2,000,000
Proceeds from Issuance of Notes Payable	-	100,000
Payments on Debt	(775,000)	-
Payments on Equipment Lease	-	(66,629)
<b>CASH FROM FINANCING ACTIVITIES</b>	<b>(775,000)</b>	<b>2,033,371</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(12,725,852)</b>	<b>1,882,602</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>18,361,113</b>	<b>43,852</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 5,635,261</b>	<b>\$ 1,926,454</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash Paid for Interest	\$ 102,173	\$ -
Cash Paid for Taxes	\$ -	\$ -

## **DIXIE BRANDS, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (unaudited)

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### **1. NATURE OF OPERATIONS**

Dixie Brands Inc. (“DBI” or the “Company”), formerly known as Academy Explorations Limited (“Academy”), was incorporated under the Business Corporations Act (British Columbia) on July 20, 1970. The Company’s Subordinate Voting Shares (“SVS”) are listed on the Canadian Securities Exchange under the symbol “DIXI.U”, and the Frankfurt stock exchange under “0QV”. The head office and principal address of the Company is 4990 Oakland Street, Denver, Colorado 80239. The Company’s registered and records office address is 3400 One First Canadian Place, Toronto, Ontario M5X 1B4. The Company operates through its wholly-owned subsidiary, Dixie Brands (USA), Inc, a Delaware corporation (“OpCo”). DBI has five other subsidiaries: (i) Therabis, LLC (“Therabis”) (85% ownership); (ii) Aceso Wellness, LLC (“Aceso”) (100% ownership); (iii) DB Finance, LLC (“DBFN”) (85% ownership) and (iv) DB Products Nevada, LLC (“DBPN”) (70% ownership) (v) DB Michigan, LLC (“DBMI”) (100% ownership).

Dixie Brands, Inc., a Delaware corporation (“USA Inc.”), and Academy entered into a definitive agreement (the “Amalgamation Agreement”) by and among Academy, Dixie Brands Acquisition, Inc. (“Amalco”), and USA Inc. in respect of the Amalgamation (as defined below). Pursuant to the Amalgamation Agreement, on November 27, 2018, Academy agreed to acquire all the issued and outstanding common stock in the capital of USA Inc. in exchange for SVS of Academy by way of a “three-cornered” amalgamation (the “Amalgamation”).

The Amalgamation resulted in USA Inc. merging with AmalCo and becoming OpCo and OpCo becoming a wholly-owned subsidiary of DBI.

References herein to the “Company” prior to November 27, 2018 means the USA Inc.

DBI owns the intellectual property, product branding, formulations, proprietary ingredients, consulting expertise, and preparation methods related to a variety of marijuana infused products, referenced herein as the “Dixie Product Line”. DBI has relationships with entities in Colorado, California, Nevada, Maryland and Michigan who are locally licensed to manufacture cannabis products, including the Dixie Product Line. DBI designs and distributes packaging, ingredients, and non-cannabis consumer goods.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Preparation**

These unaudited condensed consolidated interim financial statements (“interim financial statements”) have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company’s last annual financial statements as at and for the year ended December 31, 2018 (“last annual financial statements”). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual financial statements.

These interim financial statements were approved and authorized for issue by the Board of Directors of the Company on May 30, 2019.

## **DIXIE BRANDS, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (unaudited)

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### **Basis of Measurement**

These interim financial statements have been prepared on a historical cost basis except for derivative financial instruments, which have been measured at fair value.

### **Functional Currency**

The Company and its affiliates' functional currency, as determined by management, is the United States ("U.S.") dollar. These condensed consolidated interim financial statements are presented in U.S. dollars.

### **Fair Value Measurements**

Certain of the Company's assets and liabilities are measured at fair value. In estimating fair value, the Company uses market-observable data to the extent it is available.

### **Basis of Consolidation**

Subsidiaries are entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is acquired by the Company and they are deconsolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. All inter-company balances, revenues and expenses and earnings and losses resulting from inter-company transactions are eliminated on consolidation.

Non-controlling interest in the net assets of consolidated subsidiaries are a separate component of the Company's equity. Non-controlling interests consist of the non-controlling interests on the date of the original acquisition plus the non-controlling interests' share of changes in equity since the date of acquisition. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

The accompanying consolidated financial statements include the accounts of the following entities, DBI, Aceso, Therabis, DBFN, DBPN, USA Inc and DBMI.

### **Significant Accounting Judgments Estimates and Assumptions**

The preparation of the Company's condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant judgments estimates and assumptions that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements are described below.



## **DIXIE BRANDS, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (unaudited)

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### *Estimated Credit Loss Provision*

The Company performs impairment testing for accounts receivable in accordance with IFRS 9. The Expected Credit Loss (“ECL”) model requires considerable judgement, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. IFRS 9 outlines a three-stage approach to recognize ECLs which is intended to reflect the increase in credit risks of a financial instrument based on 1) 12-month expected credit losses or 2) lifetime expected credit losses. The Company measures provision for ECLs at an amount equal to lifetime ECLs.

### *Estimated Useful Lives and Depreciation of Property and Equipment*

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

### *Estimated Useful Lives and Amortization of Intangible Assets*

Amortization of intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

### *Derivative liabilities*

The Company uses the fair-value method of accounting for derivative liabilities and such liabilities are re-measured at each reporting date with changes in fair value recorded in the period incurred. The fair value is estimated using a Monte Carlo simulation model. Critical estimates and assumptions used in the model are discussed in Note 8.

### *Taxes*

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. It is possible, however, that at some future date, an additional liability could result from audits by taxing authorities. If the final outcome of these tax related matters is different from the amounts that are initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

### *Non-controlling Interest*

Non-controlling interest represents equity interests owned by parties that are not shareholders of the ultimate parent. Non-controlling interest is initially measured either at fair value or at the noncontrolling interest’s proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The choice of measurement is made on a transaction-by-transaction basis. The share of net assets attributable to non-controlling interests is presented as a component of equity. Their share of net income or loss is recognized directly in equity. Changes in the parent company’s ownership interest that do not result in a loss of control are accounted for as equity transactions.

## **DIXIE BRANDS, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (unaudited)

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### **Adoption of New Accounting Standards**

The following accounting standard came into effect commencing in the Company's 2019 first quarter:

The Company adopted IFRS 16 Leases on January 1, 2019, which introduces a new approach to lease accounting. The Company adopted the standard using the modified retrospective approach, which does not require restatement of prior period financial information, as it recognizes the cumulative impact on the opening balance sheet and applies the standard prospectively. Accordingly, the comparative information in these condensed consolidated interim financial statements is not restated.

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or modified, on or after January 1, 2019.

Effective January 1, 2019, the IFRS 16 transition date, the Company elected to use the following practical expedients under the modified retrospective transition approach:

- Leases with lease terms of less than twelve months (short-term leases) and leases of low-value assets (less than \$5,000) (low-value leases) that have been identified at transition, were not recognized in the consolidated statement of financial position;
- Right-of-use assets on transition were measured at the amount equal to the lease liabilities at transition, adjusted by the amount of any prepaid or accrued lease payments;
- For certain leases having associated initial direct costs, the Company, at initial measurement on transition, excluded these direct costs from the measurement of the right-of-use assets; and
- Any provision for onerous lease contracts previously recognized at the date of adoption of IFRS 16, has been applied to the associated right-of-use asset recognized upon transition.

Where the Company is a lessee, a right-of-use asset representing the right to use the underlying asset with a corresponding lease liability is recognized when the leased asset becomes available for use by the Company. The right-of-use asset is recognized at cost and is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset and the lease term on a straight-line basis. The cost of the right-of-use asset is based on the following:

- the amount of initial recognition of related lease liability;
- adjusted by any lease payments made on or before inception of the lease;
- increased by any initial direct costs incurred; and
- decreased by lease incentives received and any costs to dismantle the leased asset.

The Lease term includes consideration of an option to extend or terminate if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities are initially recognized at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. In the situation where the implicit interest rate in the lease is not readily determined, the Company uses judgement to estimate the incremental borrowing rate for discounting the lease payments. The Company's incremental borrowing rate generally reflects the interest rate that the Company would have to pay to borrow a similar amount at a similar term and with a similar security. The Company estimates

## **DIXIE BRANDS, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements  
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the lease term by considering the facts and circumstances that create an economic incentive to exercise an extension or termination option. Certain qualitative and quantitative assumptions are used when evaluating these incentives.

Subsequent to recognition, lease liabilities are measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured when there is a change in future lease payments arising mainly from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option. The payments related to short-term leases or low-value leases are recognized and included within selling, general and administrative costs over the lease term in the condensed consolidated interim statement of operations.

The Company's condensed consolidated interim financial statements were not impacted by the adoption of IFRS 16 Leases in relation to lessor accounting. Lessors will continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17 Leases.

The Company's condensed consolidated interim financial statements were not materially impacted by the adoption of IFRS 16 Leases in relation to lessee accounting.

### **3. SIGNIFICANT TRANSACTIONS**

On January 2, 2019, the Company purchased an additional 25% of its subsidiary Therabis, LLC, or 25,000 units, for a total purchase price of \$7,422,827, plus expenses not to exceed \$63,774. The initial closing payment was in the amount of \$3,922,827 with a deferred closing payment in the amount of \$3,500,000. With this purchase, Dixie Brands holds an 85% ownership in Therabis, LLC. In addition, to the initial closing payment, the outstanding balance of the Promissory Notes of \$877,173, of which principal totals \$775,000 and interest totals \$102,173 was paid.

On March 5, 2019, the Company entered into a Packaging and Supply Agreement with Choice Labs, whereby Dixie Brands' portfolio of products will be manufactured, sold and distributed across the state of Michigan. The companies had a selection of products available for sale in Michigan provisioning centers by late March 2019.

On March 12, 2019, the Company signed a joint venture agreement with Khiron Life Sciences Corp. ("Khiron"), a vertically integrated cannabis leader with core operations in Latin America. With the execution of this agreement, a new company called Dixie Khiron JV Corp. has been established with 50% owned by each of the Company and Khiron. There was no activity within the joint venture as of March 31, 2019.

On February 19, 2019, the Company paid \$3,250,000 to Auxly as a result of "elixirs", "mints" and "chocolates" not being permitted under the Cannabis Act in Canada by December 31, 2018. The remaining \$750,000 deferred license revenue is included in other accrued liabilities on March 31, 2019. On March 12, 2019 the Company amended the initial agreement with Auxly to exclude the exclusive rights in Mexico. The Company paid Auxly \$187,500 on March 12, 2019 which represented 50% of the total payment due as part of the amendment.

## DIXIE BRANDS, INC. AND SUBSIDIARIES

### Notes to Condensed Consolidated Interim Financial Statements For the Three Months Ended March 31, 2019 and 2018 (unaudited)

On January 29, 2019, the Company's subordinate voting shares were listed and traded on the Frankfurt Stock Exchange under the trading symbol 0QV. Operated by Deutsche Börse AG, the Frankfurt Stock Exchange (known in Germany as Frankfurter Wertpapierbörse or FWB®) is one of the world's largest trading centers for securities, and the largest of Germany's seven stock exchanges. This listing will facilitate the process of trading in Dixie shares by investors in Europe and internationally.

#### 4. INVENTORIES

Inventories consist of the following:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Raw Materials:		
Materials	\$ 541,934	\$ 255,850
Ingredients	297,173	460,391
Total Raw Materials	839,107	716,241
Finished Goods	559,426	234,697
Total Inventories	<u>\$ 1,398,533</u>	<u>\$ 950,938</u>

#### 5. PROPERTY AND EQUIPMENT

Property, plant and equipment consist of the following:

	<b>Furniture and Fixtures</b>	<b>Equipment</b>	<b>Computer Equipment</b>	<b>Leasehold Improvements</b>	<b>Leased Equipment</b>	<b>Total</b>
<b>Cost:</b>						
<b>December 31, 2018</b>	\$ 174,934	\$ 445,367	\$ 107,143	\$ 508,378	\$ 404,633	\$ 1,640,455
Additions	-	23,726	-	-	150,975	174,701
Disposals	-	81,780	-	-	-	81,780
<b>March 31, 2019</b>	174,934	387,313	107,143	508,378	555,608	1,733,376
<b>Accumulated Depreciations:</b>						
<b>December 31, 2018</b>	92,898	184,064	49,694	226,225	128,200	681,081
Depreciation	6,248	17,345	6,991	11,922	17,222	59,728
<b>March 31, 2019</b>	<u>\$ 99,146</u>	<u>\$ 201,409</u>	<u>\$ 56,685</u>	<u>\$ 238,147</u>	<u>\$ 145,422</u>	<u>\$ 740,809</u>
<b>Carrying Amounts:</b>						
<b>December 31, 2018</b>	\$ 82,036	\$ 261,303	\$ 57,449	\$ 282,153	\$ 276,433	\$ 959,374
<b>March 31, 2019</b>	\$ 75,788	\$ 185,904	\$ 50,458	\$ 270,231	\$ 410,186	\$ 992,567

**DIXIE BRANDS, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (unaudited)

**6. INTANGIBLE ASSETS**

Intangible assets consist of the following:

	Balance at January 1, 2018	Purchases	Disposals	Amortization Expense	Balance at December 31, 2018
Formula	\$ 37,500	\$ -	\$ (28,500)	\$ 9,000	\$ -
License Agreement	568,570	297,491	-	190,786	675,275
Total Intangible Assets	<u>\$ 606,070</u>	<u>\$ 297,491</u>	<u>\$ (28,500)</u>	<u>\$ 199,786</u>	<u>\$ 675,275</u>

	Balance at December 31, 2018	Purchases	Disposals	Amortization Expense	Balance at March 31, 2019
Formula	\$ -	\$ -	\$ -	\$ -	\$ -
License Agreement	675,275	-	-	63,956	611,319
Total Intangible Assets	<u>\$ 675,275</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,956</u>	<u>\$ 611,319</u>

**7. NOTES PAYABLE**

Notes payable consist of the following:

	March 31, 2019	December 31, 2018
Unsecured promissory note dated September 8, 2017, which matured on July 13, 2018; payment in full was due on the maturity date of note, interest at rate of 8% per annum, paid quarterly. Payment in full was paid on January 2, 2019 which included principal, interest, and penalties. See Note 3.	\$ -	\$ 250,000
Unsecured promissory note dated September 8, 2017, which matured on July 13, 2018; payment in full was due on the maturity date of note, interest at rate of 8% per annum, paid at maturity date. Payment in full was paid on January 2, 2019 which included principal, interest, and penalties. See Note 3.	-	275,000
Unsecured promissory note dated May 14, 2018, with a maturity of May 14, 2019; payment in full is due on maturity date of note, interest at rate of 12% per annum, paid quarterly. Payment in full was paid on January 2, 2019 which included principal, interest, and penalties. See Note 3.	-	250,000
Total Notes Payable	-	775,000
Less: Discounts	-	-
Less: Current Portion of Notes Payable	-	775,000
Notes Payable, Net of Current Portion	<u>\$ -</u>	<u>\$ -</u>

## DIXIE BRANDS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (unaudited)

### 8. DERIVATIVE LIABILITIES

During the year ended December 31, 2018, the Company entered into the manufacturing agreement with one of its customers, Cypress Manufacturing Company (“Cypress”). Included in this manufacturing agreement, Cypress will be granted stock options (“Incentive Options Award”) by the Company to purchase voting common stock as an incentive for meeting mutually agreed upon revenue targets, pursuant to the Company’s Employee Stock Option Plan. Since the number of options to be granted is unknown, the instrument did not meet the “fixed for fixed” criteria under IAS 32 - Financial Instruments: Presentation (“IAS 32”). As such, the conversion option was classified as a derivative liability and accounted for at fair value through profit and loss (“FVTPL”). Key assumptions used in the valuation include an expected term of two years from the inception date. The fair value of the conversion option (“derivative liability”) was valued at \$282,400 on inception date (August 1, 2018), \$238,100 on December 31, 2018, and revalued to \$302,600 on March 31, 2019 using Monte Carlo simulations, with the following assumptions:

	Inception	December 31, 2018	March 31, 2019
Risk-free Rate	2.60%	2.59%	1.62%
Expected Dividend Yield	0%	0%	0%
Expected Term (in years)	1.50	1.08	1.00
Volatility	70%	74%	74%

The total change in the fair value of the derivative liabilities for the three months ending March 31, 2019 is \$64,500. Total change for all the derivative liabilities for the year ended December 31, 2018 is \$542,532.

### 9. SHAREHOLDERS’ EQUITY

#### Stock Options

A summary of the status of the stock options outstanding follows:

	Stock options	Weighted average exercise price
	#	\$
Balance, as at December 31, 2017	—	—
Issued <sup>(1)</sup>	15,362,265	0.66
Exercised <sup>(2)</sup>	(75,000)	(0.08)
<b>Balance, as at December 31, 2018</b>	<b>15,287,265</b>	<b>0.66</b>
Issued <sup>(3)</sup>	4,000,000	0.64
Exercised <sup>(4)</sup>	(25,000)	(0.08)
<b>Balance, as at March 31, 2019</b>	<b>19,262,265</b>	<b>0.66</b>

(1) Each stock option entitles the holder to purchase one common share

Included in 15,362,265 stock options, 100,000 Academy stock options are exercisable at C\$0.08.

(2) 75,000 Academy stock options are exercised on December 14, 2018.

(3) Each stock option entitles the holder to purchase one common share

## DIXIE BRANDS, INC. AND SUBSIDIARIES

### Notes to Condensed Consolidated Interim Financial Statements For the Three Months Ended March 31, 2019 and 2018 (unaudited)

Included in 4,000,000 stock options, 2,300,000 were issued to employees that are exercisable at a weighted average exercise price of \$0.66, 1,700,000 were issued to third party consultants that are exercisable at \$0.62.

(4) 25,000 Academy stock options are exercised on January 24, 2019.

#### Share Purchase Warrants

Each whole warrant entitles the holder to purchase one common share of the Company. A summary of the status of the warrants outstanding as follows:

	Warrants classified as equity #	Weighted average exercise price \$
Balance, as at December 31, 2017	2,243,966	1.42
Issued	31,350,348	1.42
Exercised	(6,205,505)	(1.42)
Cancelled	(965,712)	(1.42)
<b>Balance, as at December 31, 2018</b>	<b>26,423,097</b>	<b>1.42</b>
<b>Balance, as at March 31, 2019</b>	<b>26,423,097</b>	<b>1.42</b>

#### Non-Participating Voting Shares

Before the RTO, the Company issued 500,000 Non-Participating Voting Shares to management. These Non-Participating Shares have no economic value or rights to dividends. They were first issued in the form of management options, exercisable at \$20 per share and were later automatically exercised to shares upon the RTO. Each Non-Participating Voting share entitles the holder to one hundred votes and each Subordinated Voting Share entitles the holder to one vote, voting together as a single class.

## 10. RELATED PARTY TRANSACTIONS

Transactions with related parties are entered into in the normal course of business and are measured at the amount established and agreed to by the parties.

*Left Bank LLC d/b/a Dixie Elixirs & Edibles ("Left Bank")*

One Director of the Company is the sole owner of Left Bank.

The Company purchased the intellectual properties (Note 6) from Left Bank in 2015 for \$1,000,000.

The Company leases the facility for DBI from Left Bank under a sub-lease agreement that expired in November 2018. Currently the Company leases the building under a month to month agreement. Annual rent is not to exceed \$209,907. Total rent expense paid to Left bank for the three months ended March 31, 2019 and 2018 is \$72,926 and 60,889, respectively. Left Bank holds inventory on behalf of the Company at the facility for a total amount of \$140,245 at March 31, 2019 and \$111,253 at December 31, 2018.

In addition to the above arrangements between the Company and Left Bank, DBI incurred shared expenses with Left Bank for accounting services provided by DBI accounting team and consultants for \$30,000 and

## **DIXIE BRANDS, INC. AND SUBSIDIARIES**

### **Notes to Condensed Consolidated Interim Financial Statements For the Three Months Ended March 31, 2019 and 2018 (unaudited)**

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\$31,500, respectively, for the three months ended March 31, 2019 and 2018. The Company also incurred various other shared expenses with Left Bank for \$76,472 and \$18,662 for the three months ended March 31, 2019 and 2018, respectively.

In addition to the above arrangements between the Company and Left Bank, Left Bank incurred shared expenses with DBI for facility maintenance and research and development services provided by Left Bank employees for \$72,545 and \$0, respectively, for the three months ended March 31, 2019 and 2018.

Purchases and sales between Left Bank and DBI are recorded in accounts payable or accounts receivable. The three months ended March 31, 2019 the Company earned \$1,409,030 of packaging revenue. DBI also incurred \$697,049 of cost of goods sold reimbursements. As a result, the Company wrote off the accounts receivable balance from Left Bank of \$697,049 to offset the accounts payable balance. During the three months ended March 31, 2018, the Company earned \$180,631 of packaging revenue and \$143,470 of raw materials and ingredients resale revenue.

At March 31, 2019 and December 31, 2018, the Company had \$3,145,372 and \$2,793,198, respectively of accounts receivable from Left Bank.

#### *Silver State Wellness*

Silver State Wellness owns 30% of DBPN. In October 2016, DBPN issued \$675,000 under a note receivable bearing interest at 12% from Silver State Wellness. DBPN had non-interest-bearing advances receivable from Silver State Wellness for \$656,887 as at March 31, 2019 and December 31, 2018.

DBPN has equity contributions receivable of \$228,263 as at March 31, 2019 and December 31, 2018 from Silver State Wellness. At March 31, 2019 and December 31, 2018, the Company had \$831,388 and \$1,107,741, respectively of accounts receivable from Silver State Wellness including \$163,996 of affiliate packaging revenue and \$75,560 of materials and ingredients resale revenue. The Company also incurred \$40,999 of COGS reimbursement due to Silver State Wellness based on the licensing agreement.

DBI has \$10,006 worth of accounts receivable from Silver State Wellness as at March 31, 2019 and December 31, 2018.

#### *Rose Capital Fund*

Rose Capital Fund owns 25% of Therabis. On January 2, 2019 DBI purchased Rose Capital Fund's 25% share of Therabis (Note 3).

#### *Auxly*

Two of the Directors of the Company are officers of Auxly. During the previous year the Company entered into a licensing agreement with Auxly and received a prepayment of \$4,000,000. During the three months ended March 31, 2019, \$3,250,000 had been returned to Auxly (see Note 3).



**DIXIE BRANDS, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (unaudited)

*Related party advances and notes receivable:*

Related party advances and notes receivable consist of the following:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
	<u>                    </u>	<u>                    </u>
Left Bank	\$ 1,771,230	\$ 1,755,886
Silver State Wellness	1,331,887	1,331,887
	<u>                    </u>	<u>                    </u>
Total Related Party Notes Receivable	<u>3,103,117</u>	<u>3,087,773</u>
	<u>                    </u>	<u>                    </u>
Related Party Advances	287,155	97,155
Less: Fair Value Adjustments on Notes Receivable	429,919	429,919
Less: Allowance on Related Party Advances	<u>1,480,565</u>	<u>1,480,565</u>
	<u>                    </u>	<u>                    </u>
Total Related Party Advances and Notes Receivable	<u>\$ 1,479,788</u>	<u>\$ 1,274,444</u>

DBI holds two notes receivable from Left Bank. The first note for \$633,333 and the second note is for \$1,235,052. During the year, both notes receivables were extended to June 2022. The notes accrue interest at 2% per annum and are payable at maturity in June 2022. Interest on these notes is not significant as at March 31, 2019 and December 31, 2018.

*Compensation of key management personnel:*

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and management directors.

	<b>March 31, 2019</b>	<b>March 31, 2018</b>
	<u>                    </u>	<u>                    </u>
Management Compensation	\$ 122,077	\$ 57,692
Stock Incentives	644,270	-
	<u>                    </u>	<u>                    </u>
	<u>\$ 122,077</u>	<u>\$ 57,692</u>

**DIXIE BRANDS, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (unaudited)

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**11. NON-CONTROLLING INTEREST**

The Company has non-controlling interest attributable to the non-controlling interest. The following table summarizes the comprehensive income attributable to the non-controlling shareholders for the year.

Net Assets of NCI, January 1, 2018	(478,369)
Net Income Attributable to NCI	(945,293)
Adjustment to NCI due to DBFN Debt Conversion	<u>(313,445)</u>
Net Assets of NCI, December 31, 2018	(1,737,107)
Net Income Attributable to NCI	(79,356)
Adjustment to NCI due to Acquisition of Therabis Equity	<u>480,139</u>
Net Assets of NCI, March 31, 2019	<u><u>(1,336,324)</u></u>

**12. EARNINGS (LOSS) PER SHARE**

The following is a reconciliation for the calculation of basic and diluted earnings (loss) per share for the period ended March 31, 2019 and 2018.

	<b>Three months ended March 31,</b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>
Net Loss	\$ (6,594,336)	\$ (807,720)
Weighted-Average Number of Shares and Units Outstanding	<u>125,036,538</u>	<u>43,685,463</u>
Earnings (Loss) Per Share - Basic and Diluted	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>
Attributable to Dixie Brands Inc	\$ (0.05)	\$ (0.02)
Attributable to Non-Controlling Interest	\$ (0.00)	\$ (0.00)

## DIXIE BRANDS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (unaudited)

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### 13. GENERAL AND ADMINISTRATIVE EXPENSES

For the three months ended March 31, 2019 and March 31, 2018, general and administrative expenses consisted of the following:

	March 31, 2019	March 31, 2018
Professional Fees	\$ 2,325,724	\$ 51,655
Stock Incentives / Share-Based Compensation	2,141,539	17,741
Salaries and Benefits	1,214,243	485,058
Legal	253,652	51,963
Other General and Administrative	148,780	45,063
Travel and Entertainment	120,696	17,445
Rent	72,926	60,889
Insurance	59,355	30,234
Bad Debt	39,440	34,867
Employee Benefits	24,038	25,909
Office Expense	51,046	63,393
Lobbying Expense	18,000	18,000
	<u>\$ 6,469,439</u>	<u>\$ 902,217</u>

### 14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company has adopted IFRS 9 - Financial Instruments ("IFRS 9"), which replaced IAS 39 - Financial Instruments: Recognition and Measurement. The revised guidance changed the classification and measurement of financial assets and liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, FVTPL and fair value through other comprehensive income. The Company's financial assets are measured at amortized cost or FVTPL.

The Company determines classification of financial assets at initial recognition. The Company's accounting policy in respect to its financial instruments is as follows:

(i) Financial assets are classified and measured at FVTPL unless they meet the following criteria for amortized cost:

- The Company plans to hold the financial assets in order to collect contractual cash flows; and
- Payments received on the financial assets are solely payments of principal and interest on the principal amount outstanding.

(ii) Financial liabilities - non-derivative financial liabilities are measured at amortized cost unless they have been designated as FVTPL. Derivative liabilities are initially measured at FVTPL, with subsequent changes in fair market value recognized in the Consolidated Statements of Operations.

## DIXIE BRANDS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (unaudited)

(iii) Compound financial instruments - the component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is recognized and included in equity and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share capital. Transaction costs are divided between the liability and equity components in proportion to their values.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used to make the measurements. The hierarchy is summarized as follows:

- Level 1 quoted prices (unadjusted) that are in active markets for identical assets or liabilities
- Level 2 inputs that are observable for the asset or liability, either directly (prices) for similar assets or liabilities in active markets or indirectly (derived from prices) for identical assets or liabilities in markets with insufficient volume or infrequent transactions
- Level 3 inputs for assets or liabilities that are not based upon observable market data

The Company classifies its financial instruments as follows:

Financial Instrument	Classification	Fair Value Hierarchy
Cash	Amortized cost	N/A
Accounts receivables	Amortized cost	N/A
Accounts payable and accrued payroll and other liabilities	Amortized cost	N/A
Promissory notes receivable	Amortized cost	N/A
Derivative liabilities	FVTPL	Level 3
Notes payable	Amortized cost	N/A

A summary of activity for level 3 derivative liabilities for the three months ending March 31, 2019 and for the year ending December 31, 2018:

	Conversion Features
Balance as of December 31, 2017	\$ 498,232
Change in Fair Value	(260,132)
Balance as of December 31, 2018	238,100
Change in Fair Value	64,500
Balance as of March 31, 2019	\$ 302,600

There are no material reclassifications between fair value levels during the three months ended March 31, 2019 or the years ended December 31, 2018 and 2017.

## **DIXIE BRANDS, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (unaudited)

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### **15. COMMITMENTS AND CONTINGENCIES**

The Company may, from time to time, be subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. Contingent liabilities associated with legal proceedings are recorded when a liability is probable, and the contingent liability amount can be reasonably estimated.

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation as at March 31, 2019, medical and adult use cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

### **16. FINANCIAL RISK MANAGEMENT**

#### *Market risk*

Strategic and operational risks arise if the Company fails to carry out business operations and/or to raise sufficient equity and/ or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

#### *Credit risk*

The Company's exposure to non-payment or non-performance by our counterparties is a credit risk. The maximum credit exposure as at March 31, 2019 is the carrying amount of cash, accounts receivable and other receivables and promissory notes receivable. The Company has a significant outstanding balance in accounts receivable over 90 days as of March 31, 2019. The Company mitigates its credit risk on its other receivables and promissory notes receivable through its review of the counterparties and business review. The Company considers a variety of factors when determining interest rates for notes receivable, including the creditworthiness of the counterparty, market interest rates prevailing at the note's origination and duration and terms of the note. Notes that are overdue are assessed for impairment.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's cash holdings. As at March 31, 2019, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one-year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's ability to complete equity cash raises, management regards liquidity risk to be low.

## **DIXIE BRANDS, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (unaudited)

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### *Asset forfeiture risk*

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants that conduct business with affiliates in the cannabis industry, which either are used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property are never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

### *Banking risk*

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate ordinary businesses.

### *Interest rate risk*

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

### *Capital structure risk management*

The Company considers its capital structure to include debt financing, contributed capital, accumulated deficit, non-controlling interests and any other component of stockholders' equity. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new units, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach during the period ended March 31, 2019.

## **17. SUBSEQUENT EVENTS**

On May 14, 2019, the Company received its full DTC eligibility under the Cusip # 25545P103. Receiving DTC eligibility means that Dixie's securities are able to be deposited through DTC. DTC, or the Depository Trust Company, is the largest securities depository in the world and holds over thirty-five trillion dollars' worth of securities on deposit.

# **Dixie Brands Inc.**

## **Management Discussion and Analysis For the three months ended March 31, 2019**

This Management Discussion and Analysis (“MD&A”) of Dixie Brands Inc. (the “Company” “DBI”) provides analysis of the Company’s financial condition and results for the three months ended March 31, 2019. The Company’s financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). The following information should be read in conjunction with the accompanying audited financial statements and the notes thereto. This MD&A was prepared using information that is current as of May 30, 2019, unless otherwise stated.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 - Continuous Disclosure Obligations of the Canadian Securities Administrators.

This discussion includes certain statements that may be deemed “forward-looking statements”. All Statements in this discussion other than statements of historical facts, that address future acquisitions and events or developments that the Company expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements based on reasonable assumptions, such statements are not a guarantee of future performance and actual results or development may differ materially from those forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, regulatory approvals, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.


The MD&A was prepared and approved by management of the Company on May 30, 2019.

### **Overview of the Company**

DBI was founded on May 5, 2014. On November 27, 2018, it completed a reverse takeover of Academy Explorations Limited, a registered issuer in the Province of Ontario. On November 29, 2018, DBI’s subordinate voting shares were listed on the Canadian Securities Exchange under the ticker symbol DIXI.U.

DBI was formed for the primary purpose of managing, protecting, and promoting a portfolio of licensed intellectual property and commercialization of proprietary processes and products related to the DIXIE™ brand. DBI owns intellectual property, including the DIXIE™ trademarks, recipes, processes, trade secrets and goodwill associated therewith. Dixie engages in the licensing of its intellectual property, proprietary bases, essences, and other prepared ingredients the formula for which is an industrial secret of DBI, from which branded and proprietary THC-infused products are manufactured by operating companies and distributed by third-party distributors. DIXIE™ products are made with pure, premium cannabis.

Through DBI's manufacturing and distribution agreements, each proprietary product is infused with clean, carbon dioxide extracted THC that is laboratory tested. DBI currently controls the intellectual property for many premium THC-infused product lines, including: DIXIE™ Elixirs Sparkling Beverages, DIXIE™ Mints, DIXIE™ Dew Drops (sublingual tinctures), DIXIE™ Chocolates, DIXIE™ Topicals, DIXIE™ Gummies, DIXIE™ Bursts, and DIXIE™ Synergy 1:1 CBD and THC Products, as well as its vaping line MINDSET. DBI also controls the operations and intellectual property for its hemp supplement subsidiaries, Aceso Wellness, LLC and Therabis, LLC.

The DIXIE™ family of word marks, including, but not limited to, "DIXIE ELIXIRS & EDIBLES", "DIXIE MINTS", "DIXIE TONICS", "DIXIE GUMMIES", "DIXIE BURST", "MINDSET" and "SYNERGY", "ACESO HEMP", "THERABIS" the  logo, as well as trade secret recipes and product manufacturing know-how are exclusively owned by DBI.

The market for cannabis products in the U.S. is regulated by numerous federal, state and local laws and regulations including those relating to cannabis, environmental protection and human health and safety. Marijuana, or cannabis, is illegal in the U.S. under the federal law and is listed as a Schedule I hallucinogenic substance pursuant to the Controlled Substances Act. Accordingly, DBI and its subsidiaries operate under the guidelines and regulations established on a state by state basis.

Currently, DBI has licensed certain portions of its intellectual property to qualified state regulated producers in the following five states: Colorado, California, Nevada, Maryland and Michigan, as well as Canada, Latin America and Mexico.



## **Selected Financial Information**

The following is selected financial data derived from the consolidated financial statements of the Company for the three months ending March 31, 2019 and 2018.

The selected consolidated financial information set out below may not be indicative of the Company's future performance:

	<b>Three months ended</b>	
	<b>March 31, 2019</b>	<b>March 31, 2018</b>
<b>Revenues</b>	\$ 2,218,175	\$ 937,571
<b>Cost of Goods Sold</b>	1,157,808	461,144
<b>Gross Profit</b>	1,060,367	476,427
<b>Total Operating Expenses</b>	7,742,527	990,647
<b>Loss From Operations</b>	(6,682,160)	(514,220)
<b>Total Other (Income) Expense</b>	(8,468)	303,735
<b>Net Loss</b>	<u>\$ (6,673,692)</u>	<u>\$ (817,955)</u>
	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Current Assets</b>	8,852,078	21,990,079
<b>Total Assets</b>	24,562,428	24,899,172
<b>Total Liabilities</b>	8,728,326	8,963,523

### *Revenue*

Revenue for the three months ending March 31, 2019 and 2018 was \$2,218,175 and \$937,571, respectively, resulting in an increase of \$1,280,604 (136.6%) from the prior year.

For the three months ending March 31, 2019 and 2018 revenues related to Packaging, Sales of Finished Goods, and Licensing were \$2,186,011 and \$635,468, respectively, resulting in an increase of \$1,550,543 (244%) from the previous year. Other miscellaneous revenue at March 31, 2019 and 2018 was \$32,164 and \$302,103, respectively, which resulted in a decrease of \$269,939 (-89.4%) from the previous year.

The increase in revenue was driven by our sustained presence in established markets, like Colorado, as well as our renewed focus on building a strong sales presence in California and Maryland. Opening new markets, like Michigan, will yield increased revenue in the coming

quarters. Sales growth is attributable to both existing products and the launch of new products, as well as higher penetration into the dispensary channel.

The Company also began building distribution channels and routes to market in Q1 for its two CBD subsidiaries, Aceso Hemp and Therabis. We expect increased revenue in subsequent quarters from this focused investment.

### *Gross Profit*

For the three months ending March 31, 2019 and 2018 gross profit was \$1,060,367 (48%) and \$476,427 (51%), respectively, resulting in an increase of total gross profit of \$583,940. As a percentage of revenue, gross profit declined due to the upfront cost of scaling production to meet the increased demand in California. The Company expects a slight compression in margins as new markets open, which ultimately will improve as efficiencies and economies of scale are realized.

### *Total Operating Expenses*

For the three months ending March 31, 2019 and 2018 total expenses were \$7,742,527 and \$990,647, respectively, resulting in an increase of \$6,751,880. The increase in expenses related primarily to the following items.

General and Administrative expense for the three months ended March 31, 2019 and 2018 was \$6,469,439 compared to \$902,218 in 2018. The increase in G&A expenses was driven by the following items.

- Professional Fees were \$2,325,724 in 2019 and \$51,655 in 2018. Included in professional fees were accounting fees relating to initial public company audit that included third party valuation services, and the assistance of temporary accounting consultants. In addition to accounting fees, the company incurred fees relating to building our foreign market as we listed on the Frankfurt Exchange and third-party consulting fees. Included in the total expense were non-cash expenses relating to the issuance of stock options totaling \$829,313 for third-party consulting fees.
- Stock Option Incentives and Share-Based Compensation were \$2,141,539 in 2019 and \$17,741 in 2018. This was a non-cash expense that was the result of the issuance of stock options to key management and third-party consultants.
- Salaries and Benefits were \$1,214,243 in 2019 and \$485,058 in 2018. Dixie headcount increased by 130% when comparing March 31, 2019 to March 31, 2018. The new additions included six positions at the Vice President level or higher at both the corporate and subsidiary levels, as the Company continues to add leadership talent to execute its growth strategy.

Other (Income) Expense totaled \$(8,468) in 2019, compared to \$303,735 in 2018. Notable items comprising Other (Income) Expense include the following.

- In 2018 the Company had interest expense of \$266,665. The Company paid off all outstanding debt as of January 2, 2019 and has no other debt on the books.

In total, \$2,970,852 of expenses for the three-month period ending March 31, 2019 was comprised of non-cash expenses as described above. These non-cash expenses were primarily incurred in association with the issuance of stock options to key management and third-party consultants as the Company looks to gain a stronger presence in foreign markets.

### *Current Assets*

Current assets decreased by \$13,138,001 for the three months ended March 31, 2019. The majority of the decrease can be attributed to the cash payments relating to the acquisition of additional equity in Therabis, LLC, the reimbursement of the Auxly Licensing fees', payment of third party consultants, as well as operating expenses.

### *Current Liabilities*

Current liabilities remained consistent with the balance as of December 31, 2018.

### *Historical Data\**

<b>Quarter Ended</b>	<b>Total Revenue</b>
March 31, 2019	2,218,175
December 31, 2018	1,586,282
September 30, 2018	2,435,398
June 30, 2018	832,200
March 31, 2018	937,571
December 31, 2017	709,677
September 30, 2017	1,161,861
June 30, 2017	881,838
March 31, 2017	586,011

*\*Due to reclassifications certain quarters will have immaterial differences to previously released financial information*

### **Discussion of Operations**

DBI plans to expand the DIXIE™ brand and line of products into selected U.S. states where medical and recreational marijuana are legal by contracting with local state license holders in those states to produce and distribute DIXIE™ brand products. DBI is typically paid an initial production and service fee as well as monthly branding fees, negotiated on a state-by-state basis, for each unit or a derivative thereof sold. DBI may also enter into financial transactions to support licensees or affiliated manufacturing companies in order to promote, support, and develop sales and distribution of DIXIE™ products including through investment in joint ventures in various states. DBI may also provide consulting services to manufacturers and retailers, in compliance

with applicable state law; serve as a real estate, fixtures and equipment holding and management company that will acquire, lease, develop and/or manage real property, industrial fixtures and equipment and lease and/or sublease such infrastructure to manufacturers and retailers; invest in such companies, in compliance with applicable state law; and enter into financial transactions to support such, including, without limitation, loan transactions, in order to promote, support, and develop sales and distribution of products utilizing its portfolio of intellectual property. DBI also controls the operations and intellectual property for its hemp supplement subsidiaries, Aceso Wellness and Therabis, LLC.

### *Significant Events or Milestones*

On January 2, 2019, the Company purchased an additional 25% of its subsidiary Therabis, LLC, or 25,000 units, for a total purchase price of \$7,422,827, plus expenses not to exceed \$63,774. The initial closing payment was in the amount of \$3,922,827 with a deferred closing payment in the amount of \$3,500,000. With this purchase, Dixie Brands holds an 85% ownership in Therabis, LLC. In addition to the purchase price of \$7,422,827 the outstanding balance of the Promissory Notes of \$877,173, of which principal totals \$775,000 and interest totals \$102,173 was paid.

On January 29, 2019, the Company's subordinate voting shares were listed and traded on the Frankfurt Stock Exchange under the trading symbol 0QV. Operated by Deutsche Börse AG, the Frankfurt Stock Exchange (known in Germany as Frankfurter Wertpapierbörse or FWB®) is one of the world's largest trading centers for securities, and the largest of Germany's seven stock exchanges. This listing will facilitate the process of trading in Dixie shares by investors in Europe and internationally.

On March 5, 2019, the Company entered into a Packaging and Supply Agreement with Choice Labs, whereby Dixie Brands' portfolio of products will be manufactured, sold and distributed across the state of Michigan. The companies had a selection of products available for sale in Michigan provisioning centers by late March and continued to expand the selection of available products into the second fiscal quarter.

On March 12, 2019, the Company signed a joint venture agreement with Khiron Life Sciences Corp. ("Khiron"), a vertically integrated cannabis leader with core operations in Latin America. With the execution of this agreement, a new company called Dixie Khiron JV Corp. ("Dixie-Khiron") has been established with 50% owned by each of the Company and Khiron. Dixie-Khiron will introduce Dixie's cannabis-infused products across Latin America to take advantage of opportunities arising from the legalization of cannabis throughout the region. In accordance with the March 12 agreement, Dixie will also manufacture and distribute Khiron's Kuida® brand of cannabidiol (CBD)-based cosmeceuticals in the United States. Kuida is expected to be broadly distributed and is expected to have particular appeal to the growing U.S. Hispanic population, estimated at nearly 60 million.

On May 14, 2019, the Company received its full DTC eligibility under the Cusip # 25545P103. Receiving DTC eligibility means that Dixie's securities are able to be deposited through DTC. DTC, or the Depository Trust Company, is the largest securities depository in the world and holds over thirty-five trillion dollars' worth of securities on deposit.

## **Business Strategy and Outlook**

The Company is pursuing a number of initiatives that are expected to result in significant revenue growth in 2019 and in future years. Key objectives for this year include the following:

- Continue to expand the number of dispensaries selling the Dixie Brands portfolio of THC-infused products within the existing U.S. footprint of California, Colorado, Maryland, Michigan and Nevada. California is estimated at one-third of the total U.S. cannabis market and represents a significant growth opportunity for Dixie which re-launched in the state in the final months of 2018.
- Establish operations in four-to-six new U.S. states in 2019, of which Michigan is the first.
- Secure additional distribution agreements for Aceso Hemp and Therabis to grow the presence of both brands in bricks and mortar locations and complement their established e-commerce channels.
- Continue to innovate by introducing new products that take advantage of Dixie's intellectual property and expertise.
- Enter the Canadian cannabis-infused products market by the end of 2019, following the publication of final regulations by Health Canada, through a licensing agreement with Auxly Cannabis.
- Evaluate potential mergers and acquisitions and other strategic partnerships in order to accelerate growth, enter new markets and add new brands.

Based on the combined impact of these growth initiatives as well as increasing consumer demand and acceptance for cannabis products in general, DBI currently believes that its total revenue opportunity for 2019 is approximately \$65 million to \$75 million, increasing to \$140 million to \$160 million in 2020. At these revenue levels, DBI believes it has the potential to generate EBITDA (earnings before interest, taxes, depreciation and amortization) equal to approximately 10% to 15% of revenue in 2019 and 20% to 25% of revenue in 2020.

## **Liquidity & Capital Resources**

DBI has historically relied upon equity financings to satisfy its capital requirements. While the Company's 2019 business plan is expected to be fully funded by the proceeds of the financings completed in 2018, the Company may continue to depend upon equity capital to finance its activities in the future, including any significant corporate development opportunities that may arise.

## **Related Party Transactions**

Transactions with related parties are entered into in the normal course of business and are measured at the amount established and agreed to by the parties.

### *Left Bank LLC d/b/a Dixie Elixirs & Edibles (“Left Bank”)*

One Director of the Company is the sole owner of Left Bank.

The Company purchased the intellectual properties from Left Bank in 2015 for \$1,000,000.

The Company leases the facility for DBI from Left Bank under a sub-lease agreement that expired in November 2018. Currently the Company leases the building under a month to month agreement. Annual rent is not to exceed \$209,907. Total rent expense paid to Left bank for the three months ended March 31, 2019 and 2018 is \$72,926 and 60,889, respectively. Left Bank holds inventory on behalf of the Company at the facility for a total amount of \$140,245 at March 31, 2019 and \$111,253 at December 31, 2018.

In addition to the above arrangements between the Company and Left Bank, DBI incurred shared expenses with Left Bank for accounting services provided by DBI accounting team and consultants for \$30,000 and \$31,500, respectively, for the three months ended March 31, 2019 and 2018. The Company also incurred various other shared expenses with Left Bank for \$76,472 and \$18,662 for the three months ended March 31, 2019 and 2018, respectively.

In addition to the above arrangements between the Company and Left Bank, Left Bank incurred shared expenses with DBI for facility maintenance and research and development services provided by Left Bank employees for \$72,545 and \$0, respectively, for the three months ended March 31, 2019 and 2018.

Purchases and sales between Left Bank and DBI are recorded in accounts payable or accounts receivable. The three months ended March 31, 2019 the Company earned \$1,409,030 of packaging revenue. DBI also incurred \$697,049 of cost of goods sold reimbursements. As a result, the Company wrote off the accounts receivable balance from Left Bank of \$697,049 to offset the accounts payable balance. During the three months ended March 31, 2018, the Company earned \$180,631 of packaging revenue and \$143,470 of raw materials and ingredients resale revenue.

At March 31, 2019 and December 31, 2018, the Company had \$3,145,372 and \$2,793,198, respectively of accounts receivable from Left Bank.

### *Silver State Wellness*

Silver State Wellness owns 30% of DBPN. In October 2016, DBPN issued \$675,000 under a note receivable bearing interest at 12% from Silver State Wellness. DBPN had non-interest-bearing advances receivable from Silver State Wellness for \$656,887 as at March 31, 2019 and December 31, 2018.

DBPN has equity contributions receivable of \$228,263 as at March 31, 2019 and December 31, 2018 from Silver State Wellness. At March 31, 2019 and December 31, 2018, the Company had \$831,388 and \$1,107,741, respectively of accounts receivable from Silver State Wellness including \$163,996 of affiliate packaging revenue and \$75,560 of materials and ingredients resale revenue. The Company also incurred \$40,999 of COGS reimbursement due to Silver State Wellness based on the licensing agreement.

DBI has \$10,006 worth of accounts receivable from Silver State Wellness as at March 31, 2019 and December 31, 2018.

### *Rose Capital Fund*

Rose Capital Fund owns 25% of Therabis. On January 2, 2019 DBI purchased Rose Capital Fund's 25% share of Therabis.

### *Auxly*

Two of the Directors of the Company are officers of Auxly. During the previous year the Company entered into a licensing agreement with Auxly and received a prepayment of \$4,000,000. During the three months ended March 31, 2019, \$3,250,000 had been returned to Auxly.

*Related party advances and notes receivable:*

Related party advances and notes receivable consist of the following:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Left Bank	\$ 1,771,230	\$ 1,755,886
Silver State Wellness	1,331,887	1,331,887
Total Related Party Notes Receivable	<u>3,103,117</u>	<u>3,087,773</u>
Related Party Advances	287,155	97,155
Less: Fair Value Adjustments on Notes Receivable	429,919	429,919
Less: Allowance on Related Party Advances	<u>1,480,565</u>	<u>1,480,565</u>
Total Related Party Advances and Notes Receivable	<u>\$ 1,479,788</u>	<u>\$ 1,274,444</u>

DBI holds two notes receivable from Left Bank. The first note for \$633,333 and the second note is for \$1,235,052. During the year, both notes receivables were extended to June 2022. The notes accrue interest at 2% per annum and are payable at maturity in June 2022. Interest on these notes is not significant as at March 31, 2019 and December 31, 2018.

*Compensation of key management personnel:*

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and management directors.

	<b>March 31, 2019</b>	<b>March 31, 2018</b>
Management Compensation	\$ 122,077	\$ 57,692
Stock Incentives	644,270	-
	<u>\$ 122,077</u>	<u>\$ 57,692</u>



A list of key management personnel is represented below:

<b>Name &amp; Municipality of Residence</b>	<b>Position with the Resulting Issuer</b>
Charles Smith Denver, Colorado	Director, Chief Executive Officer Member of Audit Committee
Brian Graham <sup>(4)</sup> Atlanta, Georgia	Director Member of Executive Compensation Committee
Melvin Yellin New York, New York	Director Member of Executive Compensation Committee
Devin Binford <sup>(3)</sup> New York, New York	Director Member of Audit Committee
Vincent "Tripp" Keber, III Denver, Colorado	Director
Michael Lickver Toronto, Ontario	Director Member of Audit Committee Member of Executive Compensation Committee
Hugo Alves Toronto, Ontario	Director
CJ Chapman Denver, Colorado	General Counsel and Secretary
James Feehan Denver, Colorado	Interim Chief Financial Officer

## **Financial Risk Management**

### *Market risk*

Strategic and operational risks arise if the Company fails to carry out business operations and/or to raise sufficient equity and/ or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

### *Credit risk*

The Company's exposure to non-payment or non-performance by our counterparties is a credit risk. The maximum credit exposure as at March 31, 2019 is the carrying amount of cash, accounts receivable and other receivables and promissory notes receivable. The Company has a significant outstanding balance in accounts receivable over 90 days as of March 31, 2019. The Company mitigates its credit risk on its other receivables and promissory notes receivable through its review of the counterparties and business review. The Company considers a variety of factors when determining interest rates for notes receivable, including the creditworthiness of the counterparty, market interest rates prevailing at the note's origination and duration and terms of the note. Notes that are overdue are assessed for impairment.

### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's cash holdings. As at March 31, 2019, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one-year, and notes payable, which have a contractual maturity within 18 months. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's ability to complete equity cash raises, management regards liquidity risk to be low.

### *Asset forfeiture risk*

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants that conduct business with affiliates in the cannabis industry, which either are used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property are never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

### *Banking risk*

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate ordinary businesses.

### *Interest rate risk*

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

### *Capital structure risk management*

The Company considers its capital structure to include debt financing, contributed capital, accumulated deficit, non-controlling interests and any other component of members' equity. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new units, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach during the three months ended March 31, 2019.